

**MACKINAC COUNTY HOUSING COMMISSION
MACKINAC COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Mackinac County Housing Commission		County Mackinac	
Fiscal Year End June 30, 2006		Opinion Date October 18, 2006		Date Audit Report Submitted to State December 18, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	Report on Internal Controls and Compliance	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC			Telephone Number (231) 946-8930	
Street Address 1107 E. Eighth Street			City Traverse City	State MI
			Zip 49686	
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA		License Number 11050

MACKINAC COUNTY HOUSING COMMISSION
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INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Mackinac County Housing Commission
Mackinac County, Michigan

I have audited the accompanying financial statements of the business-type activities of the Mackinac County Housing Commission, Michigan, a component unit of the County of Mackinac, as of and for the year ended June 30, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Mackinac County Housing Commission, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mackinac County Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated October 18, 2006, on my consideration of Mackinac County Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be in considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on page 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that comprise Mackinac County Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Barry E. Jankovich, CPA, PC

October 18, 2006

MACKINAC COUNTY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
June 30, 2006
=====

Mackinac County Housing Commission, created in 1970, by the County of Mackinac provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Mackinac County Housing Commission consists of two programs. The first is owned housing, consisting of 48 units of public housing and the second is the capital funding program. Mackinac County Housing Commission had total revenues of \$285,012 that includes \$73,795 in rental payments and \$198,843 in federal assistance. Total operating expenses were \$349,533, that includes \$104,565 in administrative expenses, \$29,018 in utilities, \$67,815 in ordinary maintenance expenses, and \$124,275 in depreciation expense. Total revenues increased by \$76,801 from the prior year and operating expenses increased by \$9,001 over the prior year for a net increase of \$67,800, due to increase in the amount of capital funding received.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$1,583,293. The Housing Commission's total net assets decreased by \$64,521 from the prior year. The decrease is attributable in part to the depreciation expense of \$124,275 versus the actual capital outlay of \$96,055, the tenant rents decreasing by \$12,857, and the increase in utilities of \$6,946.

Total assets of the Housing Commission were \$1,612,184 including \$56,080 of current assets and \$1,556,104 of net property and equipment assets. The Housing Commission had current liabilities of \$20,590 and noncurrent liabilities of \$8,301. Assets decreased, in part, by \$68,303 from the prior year due to the same reasons as explained in the previous paragraph.

MACKINAC COUNTY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

June 30, 2006

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Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital c contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Commission's current position

The Mackinac County Housing Commission is at a financially troubled state due to reasons that seem to be out of our control. Such as higher utility prices, rising cost in insurances, higher utility allowances and decreasing resident reviews. In 2005 we were able to put siding on 14 of our 48 units after saving capital funds for 2 years. We had hoped to continue this process with additional capital funds but it seems that the Housing Commission has an excessive amount of copper in its water according to Michigan's Department of Environmental Quality. Currently our most favorable option is to replace all fresh water plumbing in 24 units and two pump houses within the next two years. We have our own water systems, (wells etc) which are uncommon to most other Housing Commissions. This is a cost that we could use HUDs help with rather than spending our Capital Funds.

Other than what is discussed in the previous paragraph, there are not any other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position(net assets) or results of operations(revenues, expenses, and other charges).

Questions and comments regarding this Management Discussion and Analysis may be directed to:

George Martindale, Executive Director
N9174 Kozy Street, Curtis, MI 49820

MACKINAC COUNTY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2006
=====

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Current assets	\$ 56,080	\$ 96,163	\$ (40,083)
Property and equipment	<u>1,556,104</u>	<u>1,584,324</u>	<u>(28,220)</u>
Total assets	<u>\$1,612,184</u>	<u>\$1,680,487</u>	<u>\$ (68,303)</u>
Current liabilities	\$ 20,590	\$ 25,552	\$ (4,962)
Noncurrent liabilities	<u>8,301</u>	<u>7,121</u>	<u>1,180</u>
Total liabilities	<u>28,891</u>	<u>32,673</u>	<u>(3,782)</u>
Net assets:			
Invested in capital assets	1,556,104	1,584,324	(28,220)
Unrestricted net assets	<u>27,189</u>	<u>63,490</u>	<u>(36,301)</u>
Total net assets	<u>1,583,293</u>	<u>1,647,814</u>	<u>(64,521)</u>
Total liabilities and net assets	<u>\$1,612,184</u>	<u>\$1,680,487</u>	<u>\$ (68,303)</u>

MACKINAC COUNTY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
 (CONTINUED)
 June 30, 2006
 =====

Financial Analysis of the Housing Commission (continued)

The following table summarizes the statement of activities of the Housing Commission for the years ended June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 73,795	\$ 80,504	\$ (6,709)
Nondwelling rent		<u>6,148</u>	<u>(6,148)</u>
Total operating revenues	<u>73,795</u>	<u>86,652</u>	<u>(12,857)</u>
Operating expenses:			
Administration	104,565	105,194	(629)
Utilities	29,018	22,072	6,946
Ordinary maintenance and operation	67,815	68,353	(538)
General expenses	22,223	21,870	353
Extraordinary maintenance	1,637	6,087	(4,450)
Depreciation	<u>124,275</u>	<u>116,956</u>	<u>7,319</u>
Total operating expenses	<u>349,533</u>	<u>340,532</u>	<u>9,001</u>
Operating income(loss)	<u>(275,738)</u>	<u>(253,880)</u>	<u>(21,858)</u>
Non-operating revenue:			
Interest income	1,840	2,459	(619)
Other income	10,612	2,650	7,962
Loss on sale of fixed assets	(78)	(196)	118
Operating grants	106,730	110,598	(3,868)
Capital grants	<u>92,113</u>	<u>6,048</u>	<u>86,065</u>
Total nonoperating revenue	<u>211,217</u>	<u>121,559</u>	<u>89,658</u>
Change in Net Assets	<u><u>\$ (64,521)</u></u>	<u><u>\$ (132,321)</u></u>	<u><u>\$ 67,800</u></u>

FINANCIAL STATEMENTS

MACKINAC COUNTY HOUSING COMMISSION
STATEMENT OF NET ASSETS
June 30, 2006
=====

ASSETS

Current Assets:

Cash	\$ 5,421
Accounts receivable-HUD other projects	6,535
Accounts receivable-dwelling rents	4,267
Allowance for doubtful accounts	(859)
Accrued interest receivable	100
Investments-unrestricted	28,610
Prepaid expenses	<u>12,006</u>

Total Current Assets	<u>56,080</u>
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Property and Equipment:

Land	37,818
Buildings	2,724,583
Equipment	139,255
Building improvements	<u>824,432</u>

	3,726,088
Less: accumulated depreciation	<u>(2,169,984)</u>

Net Property and Equipment	<u>1,556,104</u>
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Total Assets	<u><u>\$ 1,612,184</u></u>
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See notes to financial statements

MACKINAC COUNTY HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2006
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LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 7,950
Tenant security deposit liability	4,758
Accrued expenses	7,004
Deferred revenues	<u>878</u>

Total Current Liabilities	20,590
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Noncurrent Liabilities:

Accrued compensated absences	<u>8,301</u>
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Total Liabilities	<u>28,891</u>
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Net Assets:

Invested in capital assets	1,556,104
Unrestricted net assets	<u>27,189</u>

Total Net Assets	<u>1,583,293</u>
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Total Liabilities and Net Assets	<u><u>\$1,612,184</u></u>
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See notes to financial statements

MACKINAC COUNTY HOUSING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006
=====

OPERATING REVENUES:

Dwelling rent	\$ <u>73,795</u>
Total operating revenues	<u>73,795</u>

OPERATING EXPENSES:

Administration	104,565
Utilities	29,018
Ordinary maintenance and operation	67,815
General expenses	22,223
Extraordinary maintenance	1,637
Depreciation	<u>124,275</u>
Total operating expenses	<u>349,533</u>

Operating income(loss)	<u>(275,738)</u>
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NONOPERATING REVENUES:

Investment interest income	1,840
Other income	10,612
Loss on sale of fixed assets	(78)
Operating grants	106,730
Capital grants	<u>92,113</u>

Total nonoperating revenues	<u>211,217</u>
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Change in net assets	(64,521)
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Net assets, beginning	<u>1,647,814</u>
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Net assets, ending	<u>\$ 1,583,293</u>
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See notes to financial statements

MACKINAC COUNTY HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2006
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 74,084
Cash payments to other suppliers of goods and services	(102,220)
Cash payments to employees for services	(122,996)
Cash payments for in lieu of taxes	<u>(5,844)</u>
Net cash (used) by operating activities	<u>(156,976)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

Tenant security deposits	263
Operating grants	106,243
Other revenue	<u>10,612</u>
Net cash provided by noncapital financing activities	<u>117,118</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:**

Capital grants	92,113
Loss on sale of fixed assets	(78)
Payments for capital acquisitions	<u>(96,055)</u>
Net cash (used) by capital and related financing activities	<u>(4,020)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments decreased	12,472
Receipts of interest and dividends	<u>1,835</u>
Net cash provided by investing activities	<u>14,307</u>

Net increase(decrease) in cash (29,571)

Cash, beginning 34,992

Cash, ending \$ 5,421

MACKINAC COUNTY HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2006
=====

RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:

Cash	\$ 5,421
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u><u>\$ 5,421</u></u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(275,738)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	124,275
Bad debt allowance	470
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(457)
Prepaid expenses	(1,481)
Increase (decrease) in liabilities:	
Accounts payable	(4,315)
Accrued wages/payroll taxes	(1,134)
Accrued compensated absences	2,024
Accrued payments in lieu of taxes	(1,366)
Deferred revenues	<u>746</u>
Net cash (used) by operating activities	<u><u>\$(156,976)</u></u>

See notes to financial statements

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mackinac County Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

Mackinac County Housing Commission is a component unit of the County of Mackinac. The Housing Commission is a Public Housing Agency created by the County of Mackinac on August 11, 1970, consisting of a five member board appointed by the County Board and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Mackinac County Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-8046, the Housing Commission constructed, maintains and operates 48 units of subsidized housing in the County of Mackinac, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities,

equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Mackinac County Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other programs" and "due to other programs" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Furniture, equipment and machinery	5 - 10 years
Building improvements	10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-

of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave, an employee shall not accumulate more than one hundred seventy-five (175) hours of vacation time. The employees will be paid for all accumulated annual leave upon termination of employment or in the event of death to the married survivor of the deceased if applicable, otherwise to months of employment.
- * Sick leave, an employee who separates from the Housing Commission employment for retirement purposes approved by Municipal Employees' Retirement Systems shall be paid one-half (1/2) of his/her unused sick leave as of the effective date of separation.

Payment of unused sick leave days shall be at the employee's prevailing rate of pay and the payment of one half (1/2) of accumulated leave days shall be based on a maximum possible accumulated of six hundred thirty (630) hours provided said employee has earned said hours.

- * Personal leave, each employee, after completing six (6) months of service, shall be allowed personal leave. Full-time employees will be allowed twenty-one (21) hours and part-time employees will be allowed ten and one half (10 1/2) hours. After completing three (3) years, full-time employees will be allowed twenty-eight (28) hours and part-time employees will be allowed fourteen (14) hours. Time to be taken with three days advance notice given to the department head except in cases of extreme emergency.

The amount of accumulated benefits at June 30, 2006, was \$13,472.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan County, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$5,421 and the bank balance was \$6,073 of which \$6,073 was covered by federal depository insurance.

Investments

The Housing Commission had the following investment in a certificate of deposit as June 30, 2006:

The State Savings Bank of Manistique (CD #30645) \$ 28,610

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Carrying amount of deposits	\$ 5,421
Investments	<u>28,610</u>
Total	<u>\$ 34,031</u>
Cash and cash equivalents:	
Enterprise activities	\$ 34,683
Enterprise activities - checks written in excess of deposits	<u>(652)</u>
Total	<u>\$ 34,031</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2006, the receivables were \$4,267 with \$859 estimated as uncollectible. Bad debt expense was \$4,363.

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. There was \$6,535 due from HUD as of June 30, 2006.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no monies due from the Capital Fund Program to the Low Rent Program as of June 30, 2006.

Individual fund operating transfers during the fiscal year are as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Low Rent Program	Capital Fund Program	<u>\$ 30,000</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance 06/30/05</u>	<u>Additions/Retirements/ Transfers</u>	<u>Transfers</u>	<u>Balance 06/30/06</u>
Low Rent Program				
Land	\$ 37,818	\$	\$	\$ 37,818
Buildings	2,641,262			2,641,262
Furniture, equip. & machinery - dwellings	54,327			54,327
Furniture, equip. & machinery - administration	67,234	4,019	(1,165)	70,088
Building improvements	<u>824,432</u>			<u>824,432</u>
	3,625,073	<u>\$ 4,019</u>	<u>\$ (1,165)</u>	3,627,927
Less accumulated depreciation	<u>(2,046,797)</u>	<u>\$ (119,258)</u>	<u>\$ 1,088</u>	<u>(2,164,967)</u>
Total	<u>\$1,578,276</u>			<u>\$1,462,960</u>
Capital Fund Program				
Buildings	\$	\$ 83,321	\$	\$ 83,321
Furniture, equip. & machinery - administration		14,840		14,840
Construction in progress	<u>6,048</u>		<u>(6,048)</u>	
	6,048	<u>\$ 98,161</u>	<u>\$ (6,048)</u>	98,161
Less accumulated depreciation		<u>\$ (5,017)</u>	<u>\$</u>	<u>(5,017)</u>
Total	<u>\$ 6,048</u>			<u>\$ 93,144</u>
Combined Totals				<u>\$1,556,104</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	Invested in Capital Assets
Balance, beginning(contributed capital)	\$1,584,324
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	(28,220)
Balance, ending	<u>\$1,556,104</u>

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Housing Commission agreed to continue to participate in the County of Mackinac pension plan, the Municipal Employees' Retirement System, (MERS) effective January 1, 1980. MERS is a Defined Contribution Program which operates within the Michigan Department and Budget, Bureau of Retirement Systems.

Effective January 1, 1997, the Employer shall implement the B-4 Pension Plan with the V-6, E-1 and E-2 Riders. The Employer agrees to pay the cost of the retirement system, including the employee's share subject to the conditions set forth below.

Commencing upon the execution of the collective bargaining agreement, appropriate employees in the bargaining unit will be covered with the Municipal Employees Retirement Systems 55-F Waiver with twenty-five (25) years of service on a contributory basis as provided below:

Commencing upon the execution of this agreement and until December 31, 2001, the Housing Commission will pay the cost of the waiver.

Commencing upon January 1, 2002 the Housing Commission will pay the cost of the 55-F waiver, subject to the limitations set forth below.

Effective on January 1, 2002, the Employer will pay no more than sixteen and 1/2 percent (16.5%) of the total cost of the retirement system, including the cost of the 55-F waiver. Any total cost over sixteen and 1/2 percent (16.5%) including the cost of the 55-F waiver shall be paid for by the employee through payroll deduction. The Employer agrees to, upon written request by the Union, to meet and discuss methods of reducing retirement system exceeds 16.5%.

For employee's hired on or after July 1, 2001, appropriate employees in the bargaining unit will be covered exclusively

by the Municipal Employees Retirement Systems defined contribution program. Under this program, the Employer will initially contribute 4% of the employees salary to the Program. Thereafter, if an employee elects to contribute 3% of the employee's salary to the Program, the Housing Commission will contribute for those employee's who make such election an additional 3% of the employee's salary to the Program.

During the fiscal year ended June 30, 2006, the Housing Commission contributed \$11,519 to the pension plan.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

NOTE 7: SUBSEQUENT EVENTS

The Housing Commission received a letter from the State of Michigan Department of Environmental Quality, dated August 29, 2006. The Housing Commission needs to identify and implement corrective actions promptly to eliminate possible adverse health effects and to achieve compliance with water quality standards. Failure to adequately address this issue in a timely manner likely may result in escalated enforcement action. The State of Michigan is strongly encouraging the Housing Commission to replace all copper plumbing and piping with approved materials that are not subject to corrosion in order to avoid future health violations. The capital costs for this option will likely be more expensive initially, but future operation and maintenance costs would be significantly reduced. The State of Michigan feels that a higher degree of public health protection can be provided with a total replacement of all copper piping in lieu of a high maintenance treatment system.

NOTE 8: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended June 30, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
Condensed Statement of Net Assets		
Current assets	\$ 56,080	\$
Property and equipment	<u>1,462,960</u>	<u>93,144</u>
Total assets	<u>\$ 1,519,040</u>	<u>\$ 93,144</u>
Current liabilities	\$ 20,590	\$
Noncurrent liabilities	<u>8,301</u>	<u></u>
Total liabilities	<u>28,891</u>	<u></u>
Net assets:		
Invested in capital assets	1,462,960	93,144
Unrestricted net assets	<u>27,189</u>	<u></u>
Total net assets	<u>1,490,149</u>	<u>93,144</u>
Total liabilities and net assets	<u>\$ 1,519,040</u>	<u>\$ 93,144</u>
Condensed Statement of Activities		
Dwelling rent	\$ 73,795	\$
Depreciation	(119,258)	(5,017)
Other operating expenses	<u>(225,258)</u>	<u></u>
Operating(loss)	(270,721)	(5,017)
Nonoperating revenues:		
Investment interest income	1,840	
Other income	10,612	
Loss on sale of fixed assets	(78)	
Operating transfers in (out)	30,000	(30,000)
Operating grants	76,730	30,000
Capital grants	<u></u>	<u>92,113</u>
Change in net assets	(151,617)	87,096
Beginning net assets	<u>1,641,766</u>	<u>6,048</u>
Ending net assets	<u>\$ 1,490,149</u>	<u>\$ 93,144</u>
Condensed Statement of Cash Flows		
Net cash provided(used) by:		
Operating activities	\$(156,976)	\$
Noncapital financing activities	117,118	
Capital and related financing activities	(4,020)	
Investing activities	<u>14,307</u>	<u></u>
Net increase(decrease)	(29,571)	<u></u>
Beginning cash and cash equivalents	<u>34,992</u>	<u></u>
Ending cash and cash equivalents	<u>\$ 5,421</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

MACKINAC COUNTY HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
June 30, 2006

=====

C-8046	Capital
Low Rent	Fund
Program	Program
<u>14,850</u>	<u>14,872</u>

ASSETS

Current assets:

Cash	\$ 5,421	\$
Accounts receivable-HUD other projects	6,535	
Accounts receivable-dwelling rents	4,267	
Allowance for doubtful accounts	(859)	
Accrued interest receivable	100	
Investments-unrestricted	28,610	
Prepaid expenses	<u>12,006</u>	
 Total current assets	 <u>56,080</u>	

Property and equipment:

Land	37,818	
Buildings	2,641,262	83,321
Equipment	124,415	14,840
Building improvements	<u>824,432</u>	
	3,627,927	98,161
Less accumulated depreciation	<u>(2,164,967)</u>	<u>(5,017)</u>
 Net property and equipment	 <u>1,462,960</u>	 <u>93,144</u>
 Total Assets	 <u>\$1,519,040</u>	 <u>\$ 93,144</u>

Totals

\$ 5,421
6,535
4,267
(859)
100
28,610
12,006
56,080

37,818
2,724,583
139,255
824,432
3,726,088
(2,169,984)

1,556,104

\$ 1,612,184

MACKINAC COUNTY HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2006
=====

C-8046	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

LIABILITIES and NET ASSETS

Current liabilities:

Accounts payable	\$ 7,950	\$
Tenant security deposit liability	4,758	
Accrued expenses	7,004	
Deferred revenues	<u>878</u>	<u></u>
Total current liabilities	20,590	

Noncurrent liabilities:

Accrued compensated absences	<u>8,301</u>	<u></u>
Total liabilities	<u>28,891</u>	<u></u>

Net assets:

Invested in capital assets	1,462,960	93,144
Unrestricted net assets	<u>27,189</u>	<u></u>
Total net assets	<u>1,490,149</u>	<u>93,144</u>
Total Liabilities and Net Assets	<u>\$1,519,040</u>	<u>\$ 93,144</u>

Totals

\$ 7,950
4,758
7,004
878

20,590

8,301

28,891

1,556,104
27,189

1,583,293

\$ 1,612,184

MACKINAC COUNTY HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended June 30, 2006

=====

	C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 73,795	\$
Nondwelling rent	<u> </u>	<u> </u>
Total operating revenues	<u>73,795</u>	<u> </u>
OPERATING EXPENSES:		
Administration	104,565	
Utilities	29,018	
Ordinary maintenance and operation	67,815	
General expenses	22,223	
Extraordinary maintenance	1,637	
Depreciation	<u>119,258</u>	<u>5,017</u>
Total operating expenses	<u>344,516</u>	<u>5,017</u>
Operating income(loss)	<u>(270,721)</u>	<u>(5,017)</u>
NONOPERATING REVENUES AND (EXPENSES) :		
Investment interest income	1,840	
Other income	10,612	
Operating grants	76,730	30,000
Capital grants		92,113
Loss on sale of fixed assets	(78)	
Operating transfers in (out)	<u>30,000</u>	<u>(30,000)</u>
Total nonoperating revenues (expenses)	<u>119,104</u>	<u>92,113</u>
Change in net assets	(151,617)	87,096
Net assets, beginning	<u>1,641,766</u>	<u>6,048</u>
Net assets, ending	<u><u>\$1,490,149</u></u>	<u><u>\$ 93,144</u></u>

Totals

\$ 73,795

73,795

104,565
29,018
67,815
22,223
1,637
124,275

349,533

(275,738)

1,840
10,612
106,730
92,113
(78)

211,217

(64,521)

1,647,814

\$1,583,293

MACKINAC COUNTY HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended June 30, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 76,730
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	<u>122,113</u>
	Total		<u>\$ 198,843</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MACKINAC COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2006

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 5,421	\$
100	Total cash	<u>5,421</u>	
	Receivables:		
122	A/R-HUD other projects	6,535	
126	A/R-tenants-dwelling rents	4,267	
126.1	Allowance for doubtful accounts	(859)	
129	Accrued interest receivable	<u>100</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>10,043</u>	
	Other Current Assets:		
131	Investments-unrestricted	28,610	
142	Prepaid expenses and other assets	<u>12,006</u>	
	Total other current assets	<u>40,616</u>	
150	Total current assets	<u>56,080</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	37,818	
162	Buildings	2,641,262	83,321
163	Furn, equip & mach-dwellings	54,327	
164	Furn, equip & mach-admin.	70,088	14,840
165	Building improvements	824,432	
166	Accumulated depreciation	<u>(2,164,967)</u>	<u>(5,017)</u>
160	Total fixed assets, net of accumulated depreciation	<u>1,462,960</u>	<u>93,144</u>
180	Total noncurrent assets	<u>1,462,960</u>	<u>93,144</u>
190	Total Assets	<u><u>\$1,519,040</u></u>	<u><u>\$ 93,144</u></u>

Totals

\$ 5,421

5,421

6,535
4,267
(859)
100

10,043

28,610

12,006

40,616

56,080

37,818
2,724,583
54,327
84,928
824,432
(2,169,984)

1,556,104

1,556,104

\$ 1,612,184

MACKINAC COUNTY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended June 30, 2006

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 3,473	\$
321	Accrued wage/payroll taxes payable	1,833	
322	Accrued compensated absences-current portion	5,171	
333	Accounts payable-other government	4,477	
341	Tenant security deposits	4,758	
342	Deferred revenues	<u>878</u>	
310	Total current liabilities	20,590	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>8,301</u>	
300	Total liabilities	<u>28,891</u>	
	Equity:		
508.1	Invested in capital assets	<u>1,462,960</u>	<u>93,144</u>
508	Total equity	1,462,960	93,144
	Net Assets:		
512.1	Unrestricted net assets	<u>27,189</u>	
513	Total net assets	<u>1,490,149</u>	<u>93,144</u>
600	Total Liabilities and Equity/Net Assets	<u>\$1,519,040</u>	<u>\$ 93,144</u>

Totals

\$ 3,473

1,833

5,171

4,477

4,758

878

20,590

8,301

28,891

1,556,104

1,556,104

27,189

1,583,293

\$1,612,184

MACKINAC COUNTY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended June 30, 2006

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 73,795	\$
704	Tenant revenue-other		
705	Total tenant revenue	<u>73,795</u>	
706	HUD PHA grants	76,730	30,000
706.1	Capital grants		92,113
711	Investment income-unrestricted	1,840	
715	Other revenue	10,612	
716	Gain/loss on sale of fixed assets	<u>(78)</u>	
700	Total revenue	<u>162,899</u>	<u>122,113</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	74,171	
912	Auditing fees	2,450	
914	Compensated absences	2,024	
915	Employee benefit contributions-adm.	15,928	
916	Other operating-administrative	9,992	
	Utilities:		
932	Electricity	6,262	
933	Gas	4,129	
934	Fuel	18,627	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	26,813	
942	Ordinary maint & oper-mat'ls & other	8,021	
943	Ordinary maint & oper-contract costs	26,007	
945	Employee benefit contributions- ordinary maintenance	6,974	
	General expenses:		
961	Insurance premiums	13,382	
963	Payments in lieu of taxes	4,478	
964	Bad debt-tenant rents	<u>4,363</u>	
969	Total operating expenses	<u>223,621</u>	
970	Excess operating revenue over operating expenses	<u>(60,722)</u>	<u>122,113</u>

<u>Totals</u>	
\$	73,795
<hr/>	
	73,795
	106,730
	92,113
	1,840
	10,612
(<u>78)</u>
<hr/>	
	285,012

74,171
2,450
2,024
15,928
9,992

6,262
4,129
18,627

26,813
8,021
26,007

6,974

13,382
4,478
4,363

223,621

61,391

MACKINAC COUNTY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2006

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	1,637	
974	Depreciation expense	<u>119,258</u>	<u>5,017</u>
	Total other expenses	<u>120,895</u>	<u>5,017</u>
900	Total expenses	<u>344,516</u>	<u>5,017</u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(181,617)	117,096
	Other Financing Sources(Uses):		
1001	Operating transfers in (out)	<u>30,000</u>	<u>(30,000)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(151,617)	87,096
1103	Beginning Net Assets	<u>1,641,766</u>	<u>6,048</u>
	Ending Net Assets	<u>\$1,490,149</u>	<u>\$ 93,144</u>

Totals

1,637
124,275
.....125,912
349,533

(64,521)

(64,521)
1,647,814
\$ 1,583,293

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Mackinac County Housing Commission
Mackinac County, Michigan

I have audited the financial statements of the business-type activities of the Mackinac County Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated October 18, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated October 18, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws,

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Mackinac County Housing Commission
Page Two

Compliance and Other Matters - Continued

regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated October 18, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Tauler, CPA, PC

October 18, 2006

MACKINAC COUNTY HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
JUNE 30, 2006

=====

<u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There were no adjusting journal entries.

MACKINAC COUNTY HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

JUNE 30, 2006

MACKINAC COUNTY HOUSING COMMISSION
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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Mackinac County Housing Commission

I have audited the financial statements of the Mackinac County Housing Commission ("Housing Commission") as of and for the year ended June 30, 2006, and have issued my report, thereon, dated October 18, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Bary E. Tardiff, CPA, PC

October 18, 2006

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Mackinac County Housing Commission

I have audited the financial statements of the Mackinac County Housing Commission ("Housing Commission") as of and for the year ended June 30, 2006, and have issued my report, thereon, dated October 18, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

October 18, 2006

MACKINAC COUNTY HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
June 30, 2006
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Tenant File Testing

We selected at random five(5) tenant files to test. We found that all of the files were missing picture ID's, inspection reports, and a declaration of citizenship. In addition, 2 files were missing the annual Privacy Act Notice, 2 files were missing copies of the social security cards, and 4 of the files had missing verification of income and expenses.

Although the Housing Commission does inspections annually and writes on a piece of paper any repairs that are needed for the affected unit, I recommend that the Housing Commission begin using an inspection report that includes all of the items listed on HUD's UPCS inspection form. A Privacy Act Notice needs to be completed annually for each tenant. Picture ID's should be obtained for each tenant. Copies of social security cards should be made for each tenant 6 years old and older. The Citizenship Declaration needs to be in each tenant file for each person residing in each unit. The parents would sign each child's declaration. Verification of income and expenses needs to be properly documented. I also, recommend that the Housing Commission consider sending the staff to training this next fiscal year in the areas of "Eligibility and Verifications", "Rent Reviews", and "Inspections". For example, myself and a staff person just attended a weeklong NAHRO seminar that was excellent for learning exactly what HUD requirements are for these areas.

MACKINAC COUNTY HOUSING COMMISSION

ADJUSTING JOURNAL ENTRIES

June 30, 2006

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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LOW RENT PROGRAM

There are no audit adjusting journal entries.